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ORIGIN AF-18

INFO OCT-01 COME-00 XMB-07 EB-11 EUR-25 EA-11 ISO-00

TRSE-00 L-03 OMB-01 CIAE-00 INR-10 NSAE-00 RSC-01

DOTE-00 CIEP-02 SPC-03 /093 R

66605

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E.O. 11652: N/A

TAGS: BEXP, ETRN, GB, US

SUBJ: TRANS-GABON RAILROAD AND THE MORRISON-KNUDSEN
PROPOSAL

REF: LIBREVILLE 379

1. AF/C AND COMMERCE REPRESENTATIVES DISCUSSED SUBSTANCE
REFTEL WITH MORRISON-KNUDSEN WASHINGTON REPRESENTATIVE.
DEPARTMENT BELIEVES EMBASSY SHOULD STRESS FOLLOWING POINTS
CONCERNING THE MORRISON-KNUDSEN PROPOSAL TO PRESIDENT
BONGO AT NEXT AVAILABLE OPPORTUNITY:

A) BASIC 190 MILLION DOLLAR FIGURE IS REALISTIC ESTIMATE OF
CURRENT COSTS OFR EXCAVATING AND LAYING TRACK IN DIFFICULT
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MOUNTAINOUS TERRAIN OF BOOUE-MOANDA-FRANCEVILLE, INCLUDING

BUILDING OF MAJOR TUNNE). 10 PERCENT CONTINGENCY PROVISION ALLOWS FOR POSSIBLE MISJUDGMENT FACTOR. AS EMBASSY AWARE, ESTIMATE IS BASED ON PRELIMINARY AND NOT DETAILED PLANS.

B. INTEREST OVER REIMBURSEMENT PERIOD IS NORMAL CAPITAL EXPENDITURE. ADDITIONAL 15 PERCENT TO COVER COST INFLATION IS NECESSARY IN LIGHT OF WORLD MARKET CONDITIONS AND GLOBAL PRICE RISES WHICH ARE AS HIGH OR HIGHER IN COUNTRIES OTHER THAN U.S.

C) TOTAL 239 MILLION DOLLAR CONSTRUCTION PACKAGE PROPOSAL REPRESENTS A CONSCIENTIOUS AND CAREFUL EFFORT FROM ONE OF THE WORLD'S LEADING CONSTRUCTION COMPANIES TO PRODUCE A RELISTIC FIGURE UPON WHICH THE GOG CAN DEPEND. GOG SHOULD BE AWARE THAT THERE IS WIDESPREAD PRACTICE AMONG CONTRACTORS OF GIVING INITIALLY LOW ESTIMATE ON COST-PLUS BIDS ONLY LATER ENDING IN HIGHER FINAL COST FIGURE. KEY CONSIDERATION FOR GOG SHOULD BE CONTRACTOR INTEGRITY AND EFFICIENCY (I.E. HONESTY IN ESTIMATING PLUS ABILITY TO CONTROL COSTS AS PROJECT PROCEEDS). MORRISON-KNUDSEN'S WORLD-WIDE EXPERIENCE AND REPUTATION IN RAILROAD CONSTRUCTION FIELD DESERVES SERIOUS CONSIDERATION BY GOG.

D) 190 MILLION DOLLARS ESTIMATE NOT SIGNIFICANTLY OUT OF LINE WITH 128 MILLION DOLLARS FIGURE QUOTED BY HOLZMANN LAST FALL ONLY FOR THE EARTHWORK AND TRACK LAYING FROM BOOUE TO MOANDA. THE DIFFERENCE BREAKS DOWN TO 10 MILLION DOLLARS FOR LOCOMOTIVES, ANOTHER 10 MILLION DOLLARS FOR STRENGTHENING THE CULVERTS AND EMBANKMENT WHICH MORRISON-KNUDSEN BELIEVES IS INADEQUATELY TREATED IN HOLZMANN STUDY, 20 MILLION DOLLARS FOR THE MOANDA-FRANCEVILLE SPUR (NOT IN THE HOLZMANN STUDY) AND FOR PRICE CHANGES DUE TO THE INFLATIONARY SPIRAL SINCE LAST FALL. MORRISON-KNUDSEN ESTIMATE ALSO INCLUDES TOTAL COST CONSTRUCTION EQUIPMENT WHICH CAN BE USED TO CONSTRUCT BOOUE-BELINGA SECTION AT REDUCED PRICE AFTER COMPLETION FRANCEVILLE LEG OR FOR OTHER GABONESE PUBLIC WORKS DEVELOPMENT PROJECTS.

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2. GIVEN THE REAL WORLD OF CONSTRUCTION COSTS, THERE IS CONSIDERABLE DOUBT WHETHER BY THE TIME THE LAST SPIKE IS DRIVEN THE JAPANESE COULD GIVE THE GABONESE AN EQUIVALENT QUALITY JOB FOR A BETTER PRICE THAN MORRISON-KNUDSEN, ESPECIALLY CONSIDERING GENERALLY HIGHER COSTMOST JAPANESE-MADE PRODUCTS THAN MADE-IN-USA ITEMS.

3. RE FINANCING-ACCORDING TO DOCUMENTS AVAILABLE IN

WASHINGTON, RATE OF INTEREST OFFERED BY COMMERCE UNION
BANK IS ONE AND SEVEN-EIGHTS OVER COST OF FUNDS ON A
FLOATING BASIS NOT ONE AND SEVEN-EIGHTS OVER PRIME RATE.

4. ANY FURTHER DETAILS ABOUT 118 MILLION DOLLARS JAPANESE
PROPOSALS WHICH EMBASSY COULD PROVIDE WOULD BE HELPFUL IN
ASSESSING EXTENT TO WHICH THAT PROPOSAL IS MORE FAVORABLE
THAN THE AMERICAN ONE. RUSH

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: CONSTRUCTION, RAILROADS, NEGOTIATIONS, BANK LOANS, PROPOSALS (BID)
Control Number: n/a
Copy: SINGLE
Draft Date: 27 MAR 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: morefirh
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974STATE061325
Document Source: CORE
Document Unique ID: 00
Drafter: AF/C:JHALL DIGGS: COMMERCE:STEVE CONGER
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740070-0046, D740067-1126
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740310/aaaaajjm.tel
Line Count: 123
Locator: TEXT ON-LINE, ON MICROFILM
Office: ORIGIN AF
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: LIBREVILLE 379
Review Action: RELEASED, APPROVED
Review Authority: morefirh
Review Comment: n/a
Review Content Flags:
Review Date: 25 APR 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <25 APR 2002 by ifshinsr>; APPROVED <30 JUL 2002 by morefirh>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: TRANS-GABON RAILROAD AND THE MORRISON-KNUDSEN PROPOSAL
TAGS: BEXP, ETRN, GB, US, MORRISON-KNUDSEN
To: LIBREVILLE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005